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As Kentucky House and Senate leaders tie up the last details of the state budget, we hope they haven't been too busy to focus on the big news about the tobacco settlement: This week, tobacco companies got one step closer to getting permission from an arbiter to reduce their payments to the states next month by \$1.2 billion.

That would make a significant difference to Kentucky, which, like other states, has relied on tobacco settlement money to fund important programs and balance the budget. It pays for health insurance, early childhood education programs and programs to help farmers and rural communities move beyond tobacco.

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Gov. Ernie Fletcher has been warning the legislature that this could happen, and his budget staff estimates that Kentucky will receive just \$88 million this year, down from \$125 million when the agreement was signed. Next year, Kentucky could expect to lose another \$20 million to \$22 million, and still another \$20 million in 2008.

Wisely, the Fletcher administration has been advocating a way to make up for this loss. At first, the plan was billed as an alternative to the Master Settlement Agreement, but since then it has morphed into an arrangement that looks like a \$4 tax on every carton of cigarettes sold by wholesalers.

The likely reductions in settlement money are making the Governor and his staff look prescient. The House and Senate should get on board with their plan.

Obviously, with only three days left in the legislative session, it would be hard to make what Stan Cave, the Governor's chief of staff, calls "a monumental policy

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shift." But it might be easier than cutting all the road and capital projects that are so near and dear to lawmakers' hearts -- and then cutting even more in the next two years, all for the sake of the cigarette makers.

Meanwhile, the Campaign for Tobacco-Free Kids is reminding states that the best way to improve their bottom lines is to reduce tobacco-related health-care costs, which, nationally, are \$89 billion a year. The organization suggests states implement smoking prevention measures and increase tobacco taxes so fewer teens start smoking and more adults quit.

A \$4 tax on a carton of cigarettes would raise about \$130 million a year, which could pay for a lot of smoking cessation programs. It also would increase the price of cigarettes. Yet anti-smoking groups have been working against the Governor's proposal.

Tobacco politics have always been strange in Frankfort, and clearly they still are. But lawmakers should face facts and seize this opportunity to make Kentucky fiscally and physically healthier.

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